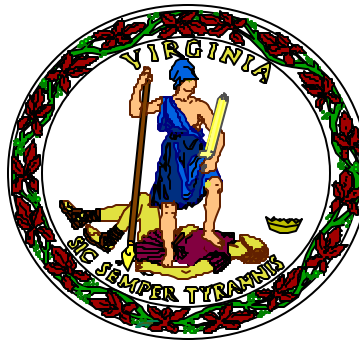


Commonwealth of Virginia

**Department of Mental Health, Mental Retardation and
Substance Abuse Services**

Annual Financial Report **Fiscal Year 2002**



**James S. Reinhard, M.D.
Commissioner**

Written and Published by the
Division of Financial Administration
Office of Financial Reporting and Compliance

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The mission of the Department of Mental Health, Mental Retardation, and Substance Abuse Services is to improve the quality of life of people with mental disabilities and substance abuse problems by providing the very best services possible, at minimal burden to the taxpayer. The Department works to effectively treat those who need services and to prevent the development of mental disabilities and substance abuse problems. This is accomplished through a coordinated system of care that respects and promotes the dignity, rights, and full participation of individuals and their families.

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TRANSMITTAL LETTER

We are pleased to provide the Annual Financial Report of the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department") for the fiscal year ended June 30, 2002. This report contains informative financial and statistical data about the Department. This report is also available on the Department's Web Page (www.dmhmrzas.state.va.us).

Since 1987, the Department has produced annual financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements for the fiscal year ended June 30, 2002 are presented in accordance with the enterprise fund model as required by Governmental Accounting Standards Board (GASB) Statement Number 34. The use of GAAP requires use of estimates and accruals to match revenues in the period earned and expenses in the period incurred. Readers should note that this report has not been prepared on the budgetary basis of accounting, a cash basis of accounting. Under the cash basis of accounting, revenues and expenditures are recorded at the time cash is actually received or disbursed according to the provisions of the Appropriation Act. Above all else, the financial report represents the Department's commitment to the accurate financial reporting of its activities.

James S. Reinhard, M.D.
Commissioner

Joy Yeh, CPA, Ph.D.
Assistant Commissioner
Financial Administration
December 9, 2002

Mark R. Warner
Governor, Commonwealth of Virginia

Jane H. Woods
Secretary of Health and Human Resources

Anita Smith Everett, M.D.
Inspector General

James S. Reinhard, M.D.
Commissioner

STATE BOARD MEMBERS (June 2002)

Hampton, Virginia
Joe N. Allen

Charlottesville, Virginia
Virginia R. Dofflemyer
Board Chairman

Pearisburg, Virginia
Doug Turner

Richmond, Virginia
Michael Flynn
Vice-Chairman

Williamsburg, Virginia
Nancy Ward

Clincho, Virginia
Garnett Robinson

Richmond, Virginia
Charles W. Gunn, Jr.

Richmond, Virginia
Marlene Butler
Board Secretary

Springfield, Virginia
Elaine McConnell

Chesapeake, Virginia
William Pierce

SENIOR MANAGEMENT TEAM

Gerald E. Deans
Assistant Commissioner
Facility Operations

Raymond R. Ratke
Deputy Commissioner

Julie A. Stanley, J.D.
Assistant Commissioner
Admin. & Regulatory Compliance

James L. Evans, M.D.
Medical Director
Health & Quality Care

Charline A. Davidson
Director
Planning & Development

Joy Yeh, CPA, Ph.D.
Assistant Commissioner
Financial Administration

Neila L. Gunter
Director
Human Resources

Martha J. Mead
Director
Legislation & Public Relations

David W. Burhop
Director
Information Technology

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2002

This section of the annual financial report of the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) represents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2002. Please read and review this information in conjunction with the Department's transmittal letter at the front of this report and the Department's financial statements (pages 24-27) and note disclosures (pages 28-37) that follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three financial components. These are the management discussion and analysis (this section), the basic financial statements, and the required supplementary note disclosures. The basic financial statements are presented in a proprietary fund format in accordance with the principles of an enterprise fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require the Department to maximize efforts to recover the cost of services rendered at our fifteen inpatient facilities. Due to this, a fee is applicable to every service provided. The Department is required by law to maximize its efforts to collect such fees from individual patients, legally liable parties, and third party coverage such as Medicaid, Medicare, and private insurance.

In addition to the operation of inpatient facilities, the Department funds community programs operated by forty community services boards. Funding is also provided to a number of private not-for-profit organizations providing mental health, mental retardation, and substance abuse services in a community setting. This funding consists of state general funds from the Commonwealth of Virginia and Federal grant subsidies. These financial activities, along with those attributable to capital maintenance and restricted donations, are presented on the financial statements as non-operating financial activities.

The financial statements and information presented include:

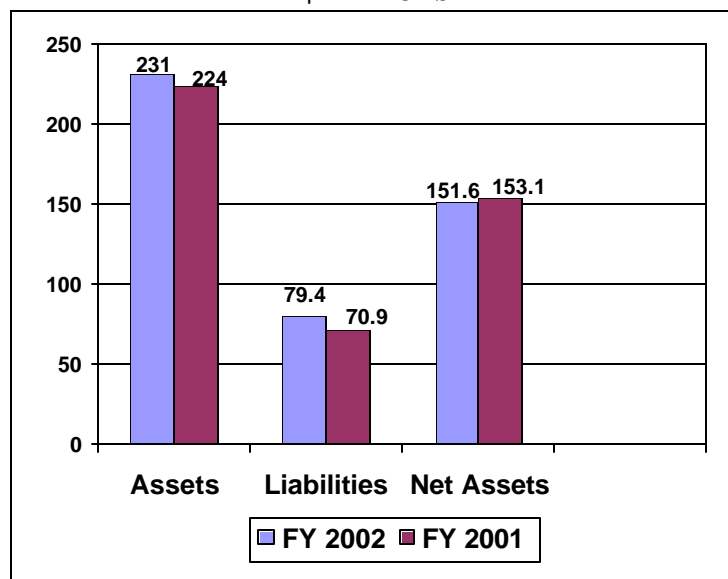
Statement of Net Assets: This financial statement displays the Department's assets and liabilities and the difference between them (Net Assets). Changes in net assets, increases or decreases, is one way to measure the financial health of the entity and whether its' financial position is improving or deteriorating.

The Department's net assets decreased by 1% to \$151.66 million. While the Department's total assets increased by \$7.10 million from fiscal year 2001, the total liabilities increased by \$8.63 million. This increase in liabilities was primarily attributable to a \$9.62 million advance payable to the Department of Medical Assistance Services. This advance was a part of a very complex series of transactions that took place at the close of the fiscal year ended June 30, 2002. A complete description of these transactions and their effect on the Department's financial position is presented in Note 16 to the financial statements.

Statement of Net Assets

	2002	2001	% Change
Current Assets	\$108,032,024	\$86,295,626	25.2%
Non-current Assets	6,102,232	11,594,363	(47.4%)
Property and Equipment	117,025,786	126,167,594	(7.3%)
Total Assets	<u>\$231,160,042</u>	<u>\$224,057,583</u>	<u>3.2%</u>
Current Liabilities	\$41,917,060	\$33,668,254	24.5%
Non-current Liabilities	37,580,356	37,198,727	1.0%
Total Liabilities	<u>\$79,497,416</u>	<u>\$70,866,981</u>	<u>12.2%</u>
Invested in Capital Assets	\$117,025,786	\$126,167,594	(7.3%)
Unrestricted Net Assets	30,738,690	18,499,931	66.2%
Restricted Net Assets	3,610,679	8,195,919	(56.0%)
Retained Earnings	287,471	327,158	(12.1%)
Total Net Assets	<u>\$151,662,626</u>	<u>\$153,190,602</u>	<u>(1.00%)</u>

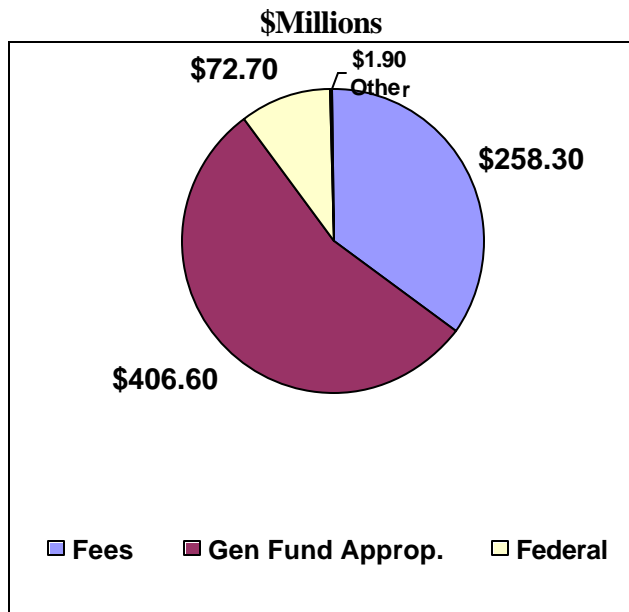
ASSETS, LIABILITIES, NET ASSETS \$Millions



Statement of Revenues, Expenses and Changes in Net Assets: This financial statement displays the operating results of the Department. The Department uses the accrual basis of accounting whereby revenues are recognized when earned as opposed to when received and expenses are recognized when incurred as opposed to when paid.

The Department's net patient service revenue and other operating revenue decreased by 5.6% to \$260,001,783. Appropriations from the Commonwealth (State General Funds) and Federal Grant subsidies increased by 2.4% to \$479.378 million in fiscal year 2002. The decline in net patient service revenue related to the decrease in third party cost settlements associated with the Medicaid and Medicare programs. Third party settlements receivable for the fiscal year ended June 30, 2002 were \$24.01 million less than the previous fiscal year. Concurrently, gross patient charges increased by nearly \$16 million while charity allowance write offs increased by nearly \$8 million. The Department derives 91% of its patient service revenue as a result of billings to the Department of Medical Assistance Services (the Commonwealth of Virginia's Medicaid program).

FY 2002 TOTAL REVENUES (GAAP BASIS)
(Operating & Non-Operating)
\$740 Million Total



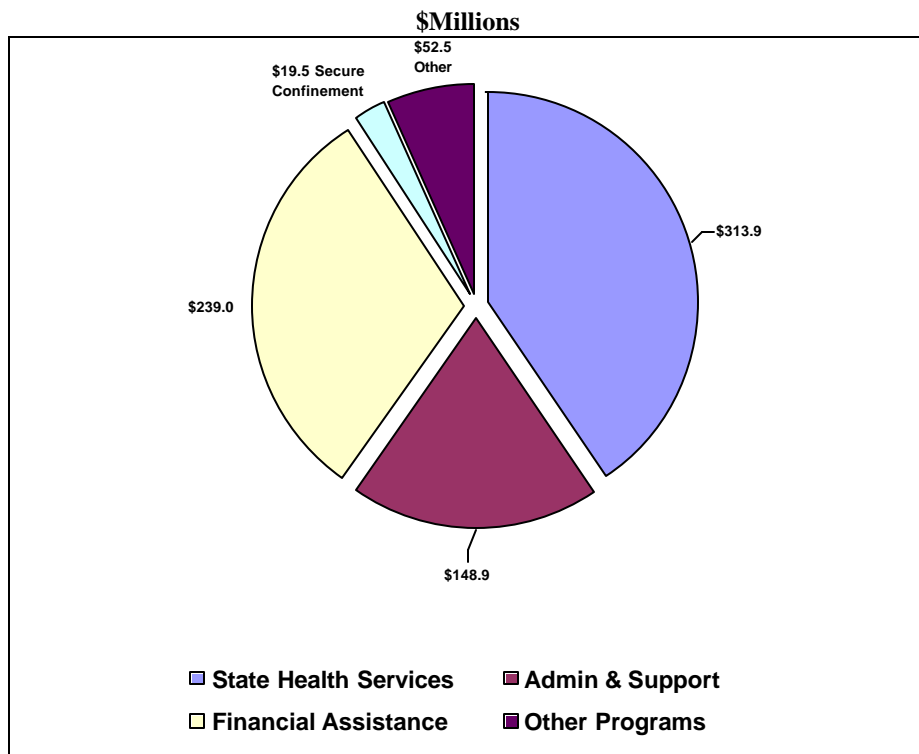
Revenues	\$Millions
Net Patient Service (Fees)	\$258.3
Gen Fund Appropriation	406.6
Federal	72.7
Other	1.9
Total Revenues	\$739.50

Expenses for the year were charged to a number of programs. These expenses are presented on the accrual basis of accounting (generally accepted accounting principles) whereby the expense is recognized when incurred as opposed to the budgetary basis of accounting wherein the expenditure is recognized when paid. The Department's program expenses are as follows (in millions):

Expense Program	2002	%	2001	%
State Health Services	\$313.9	40	\$309.5	41
Financial Assistance for Health Services	239.0	31	211.3	28
Administrative & Support Services	148.9	19	156.6	21
Community Health Services	23.3	3	23.2	3
Secure Confinement	19.5	3	19.0	3
Capital Expenses	8.1	1	13.1	1
Depreciation Expenses	9.8	1	10.7	1
Other Program Expenses	11.3	2	17.1	2
Total Expenses	<u>\$773.8</u>		<u>\$760.5</u>	100

As is presented above, with the exception of funding to community programs (Financial Assistance for Health Services), expenses have remained relatively constant or decreased from the previous fiscal year. This is due to the fact that the Department's number of employees remained constant at 9,090 along with the fact that employees did not receive any pay increase in fiscal year 2002.

FY 2002 EXPENSES (GAAP BASIS)
\$774 Million Total Expenses



Expense Program Descriptions : See Note 15 (pages 35-36).

Statement of Cash Flows: This financial statement provides relevant information regarding the Department's sources of cash receipts and the purposes of its cash disbursements. The statement demonstrates the Department's capacity to generate cash flows and its ability to pay its routine obligations.

The Department's Statement of Cash Flows is presented in accordance with the direct method of reporting, that is, cash receipts and disbursements reported are not netted or combined with other categories presented in the cash flow statement.

The Department used nearly \$252.3 million in net cash to conduct its operating activities for the fiscal year ended June 30, 2002. While receipts collected as a result of patient services rendered (\$263.6 million) comprised the majority of the cash inflow from operations, payments of salaries and the cost of employee benefits to the Department's 9,090 employees (\$392.1 million) along with other operating expenditures made up the majority of the cash outflow.

Cash flows from non-capital financing activities were positive in the amount of nearly \$269.8 million. This is primarily attributable to General Fund subsidies from the Commonwealth of Virginia amounting to nearly \$406.7 million along with Federal grant subsidies totaling \$72.8 million.

Cash flows from capital and related financing activities were negative in the amount of \$5.5 million. This negative cash flow was created by capital expenditure of \$8.9 million used to finance capital projects applicable to the Department.

BUDGETARY HIGHLIGHTS

The Department's budget consists of the following sources of funds:

	\$ Millions	%
State General Funds	\$406.6	54
Special Revenue Funds	276.2	36
Federal Funds	75.1	10
FY 2002 Final Operating Appropriation	<u>\$757.9</u>	100

State General Funds consist of the appropriation of general tax revenues from the Commonwealth of Virginia. These funds are used to subsidize the operations of the Department's fifteen inpatient facilities; to finance the majority of the Central Office oversight functions; and to fund community programs operated by community services boards and not for profit organizations.

Special Revenue Funds are derived predominantly from the collection of fees applicable to services provided by the Department's fifteen inpatient facilities. These revenues consist of Medicaid reimbursements, Medicare reimbursements, private insurance reimbursement, private payments, and Federal entitlements.

Federal funds consist of numerous grants from the Federal government. The majority of the Department's grant subsidies are derived from the Substance Abuse Prevention Treatment (SAPT) Block Grant and the Community Mental Health Services (CMHS) Block Grant. These grants are passed through to community programs by the Department's Office of Grants Management. With the exception of the National School Lunch, National School Breakfast, Education of Handicapped Children, and the Virginia Department of Agriculture and Consumer Services Federal Food Distribution Program, all grants are passed through to community programs. Those noted above are administered by some of the Department's fifteen inpatient facilities.

Of the Department's consolidated operating budget of \$757.9 million, \$754.5 million was expended for operations. On a budgetary basis of accounting, wherein expenditures are recognized when paid as opposed to incurred, the Department expended its appropriated financial resources for the following programs during fiscal year 2002 (in millions):

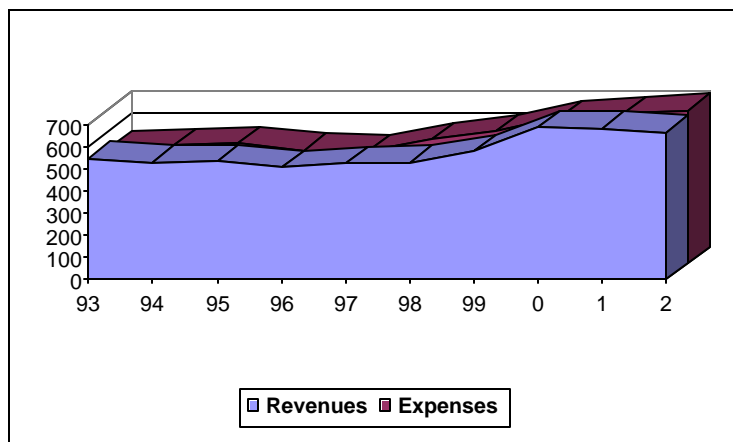
State Health Services	\$313.3
Financial Assistance for Health Services (CSB funding)	239.0
Administration and Support Services	150.4
Community Health Services	23.3
Secure Confinement	19.5
Other Programs	9.0
Total Budgetary Expenditures	<u>\$754.5</u>

Of these expenditures, \$332.8 million (44%) were expended for direct inpatient care, \$239 million (32%) were transferred to communities for community programs, and \$150.4 million (20%) were expended for administration and support services for the Department's facilities and central office. Direct inpatient care consists of state health services and secure confinement. Administration and support services include inpatient food services, inpatient housekeeping, inpatient laundry services, inpatient buildings and grounds maintenance, inpatient security services, inpatient general management and direction, and Central Office general management and direction.

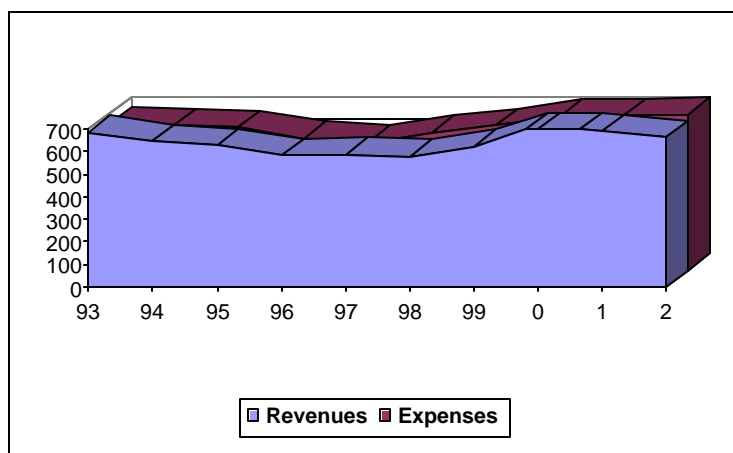
TEN-YEAR ANALYSIS OF REVENUES AND EXPENSES (FY 1993-FY 2002)

The following charts present trends in revenues and expenses of the Department over the last ten years. These charts reflect both actual and inflation adjusted figures.

**REVENUES & EXPENSES (ACTUAL)
FY 1993-2002 in Millions**



**REVENUES & EXPENSES (CPI ADJUSTED)
FY 1993-2002 in Millions (2002=100)**



As may be noted from these charts, total revenues in inflation adjusted terms in FY 1993 were \$687.3 million and in FY 2002 they were \$666.7 million. This represents a decrease of \$20.6 million or 3%. Total expenses in inflation adjusted terms were \$654.2 million in FY 1993 and \$692.7 million in FY 2002 representing an increase of \$38.5 million or 6%. These charts generally show a leveling of both revenues and expenses of the Department in inflation adjusted terms. Presented below are the actual figures from these charts and the ten-year excess (deficiency) of revenues over expenses.

Note: FY 2001 & 2002 revenues and expenses have been adjusted to exclude federal and capital outlay expenditures so the ten-year analysis is properly comparable. The amounts excluded for revenues represents \$60,072,105 and \$73,033,026 for FY 01 and FY 02, respectively. The amounts excluded for expenses represents \$80,338,759 and \$80,999,853 for FY 01 and FY 02, respectively.

REVENUES & EXPENSES (ACTUAL)
FY 1993-2002 (\$Millions)

Fiscal Year	Revenues* (Millions)	Expenses* (Millions)	Excess (Deficiency)
1993	550.0	523.4	26.6
1994	531.6	529.8	1.8
1995	533.8	538.7	(4.9)
1996	511.0	510.5	.5
1997	526.2	508.7	17.5
1998	529.6	557.6	(28.0)
1999	580.4	597.1	(16.7)
2000	693.3	659.4	33.9
2001	683.6	680.1	3.5
2002	666.7	692.7	(26.0)

*As noted on the previous page, revenues and expenses exclude federal and capital outlay revenues and expenditures. These items were excluded to make the ten-year analysis properly comparable.

CAPITAL ASSETS

The Department's net capital assets totaled \$117 million. This amount represents a net decrease of \$9.2 million from the previous fiscal year. The table below provides information about the composition of the Department's capital assets (in millions):

	2002	2001
Land	\$14.9	\$14.9
Infrastructure	12.4	12.3
Equipment	50.1	49.8
Buildings	232.3	230.0
Construction in Progress	11.6	14.1
Accumulated Depreciation	(204.3)	(194.9)
Net Capital Assets	<u>\$117.0</u>	<u>\$126.2</u>

A capital outlay budget is appropriated to the Department on a biennial basis. During a budget biennium (2 year budget cycle), capital appropriations may be brought forward with the approval of the Department of Planning and Budget. The Department's capital budget is intended to provide capital maintenance services, improve boiler operations at inpatient facilities, modify building structures in order to comply with life safety code regulations, and to provide financial resources for a number of other capital projects currently in progress. The Department's total capital outlay budget for the fiscal year ended June 30, 2002 was \$26.3 million of which \$8.9 million was expended during the year.

ECONOMIC FACTORS AFFECTING THE DEPARTMENT

The Commonwealth of Virginia is facing a state general fund revenue shortfall of at least \$1.5 billion. As a result of this, Governor Mark Warner announced a strategy to address this shortfall at a meeting with members of the state's Senate Finance Committee and House Appropriations Committee on August 19, 2002. The Governor directed state agencies to submit budget reduction plans of 7%, 11% and 15%. These plans were submitted to the Governor by each state agency on September 20, 2002. The effects on the Department in fiscal years 2003 and 2004 are described in the paragraphs that follow.

State funding to our forty community services boards was reduced by 10% in both fiscal years 2003 and 2004. This reduction amounted \$16,257,060 per year and will result in the lay off of 268 staff at our community services boards. These reductions will have the effect of reducing or eliminating services to nearly 12,000 individuals. An additional 8,700 will receive less intense services.

The fifteen state facilities operated by the Department were also affected by the budget reductions as \$3,470,960 and \$5,791,487 were reduced from facility budgets in fiscal years 2003 and 2004 respectively. This involved the termination of 62 employees and the elimination of 145 positions. The potential negative outcomes of these reductions include the increased possibility of serious injuries and patient deaths and may draw the attention of certifying and accrediting bodies as well as the Department of Justice. Potential negative reviews by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and the Department of Justice will tend to jeopardize revenues and result in costly corrective action plans that will diminish efforts to restructure the current system and transition to a more community based continuum of care.

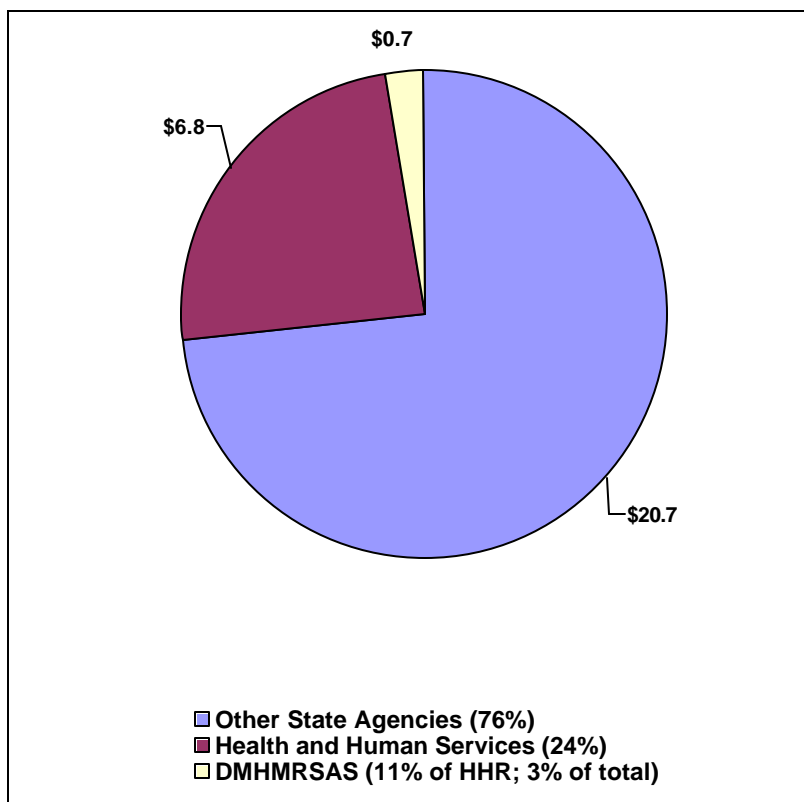
The Department's Central Office reduced its budget by \$1,990,193 and \$3,575,146 in fiscal years 2003 and 2004, respectively. These reductions involved the elimination of 29 full time staff, 5 part time positions and 4 vacant positions. These reductions will have the effect of reducing the Department's ability to manage and oversee facilities and community services boards to ensure compliance with state and Federal regulations. The Department is hopeful that economic conditions will improve so these reductions can be restored.

SYSTEM CHARACTERISTICS OF THE VIRGINIA DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

The Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department" or DMHMRSAS) consists of nine mental health facilities, five training centers for the mentally retarded, one medical center, and a Central Office. The Department also funds forty community services boards.

The Department is organized under the Secretary of Health and Human Resources. Appropriations for the Secretary of Health and Human Resources represented approximately 24% of the Commonwealth of Virginia's \$28.2 billion final operating appropriation for FY 2002. The Department was allocated approximately 11% of the total appropriations available to the Secretary of Health and Human Resources. For the fiscal year, the Department's final operating appropriation was \$757.9 million (excluding capital outlays) and final budgetary operating expenditures were \$754.5 million.

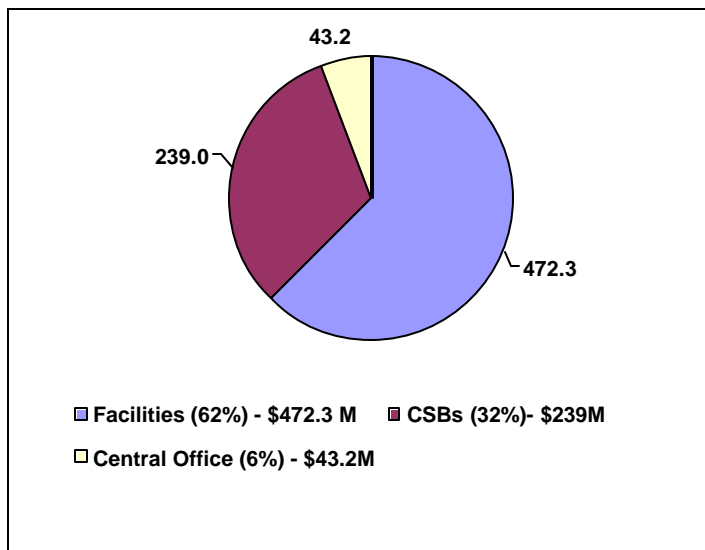
FY 2002 BUDGET COMMONWEALTH OF VIRGINIA \$28.2 Billion (Final Operating Appropriation)



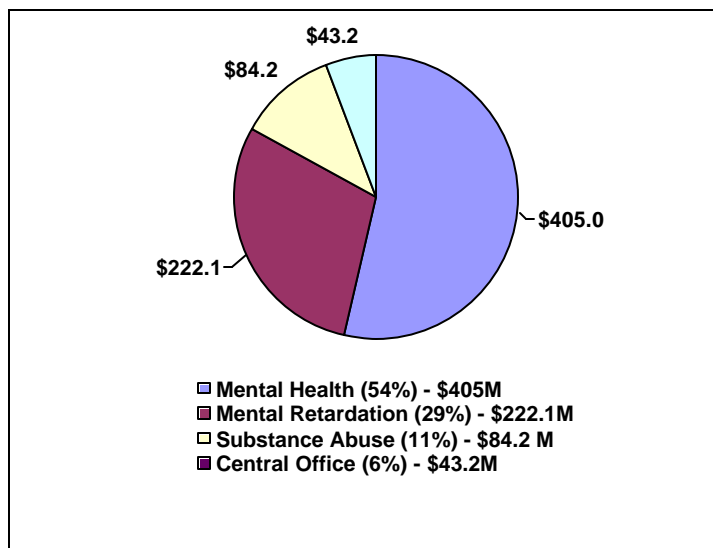
The following charts present FY 2002 final budgetary expenditures for all facilities, CSBs, and the Central Office. Also presented are expenditures by disability: Mental Health, Mental Retardation, Substance Abuse, Administration and Support, and the Central Office.

FY 2002 BUDGETARY EXPENDITURES

FACILITIES, CSBs, CENTRAL OFFICE \$754.5 Million Total Expenditures



BY DISABILITY \$754.5 Million Total Expenditures

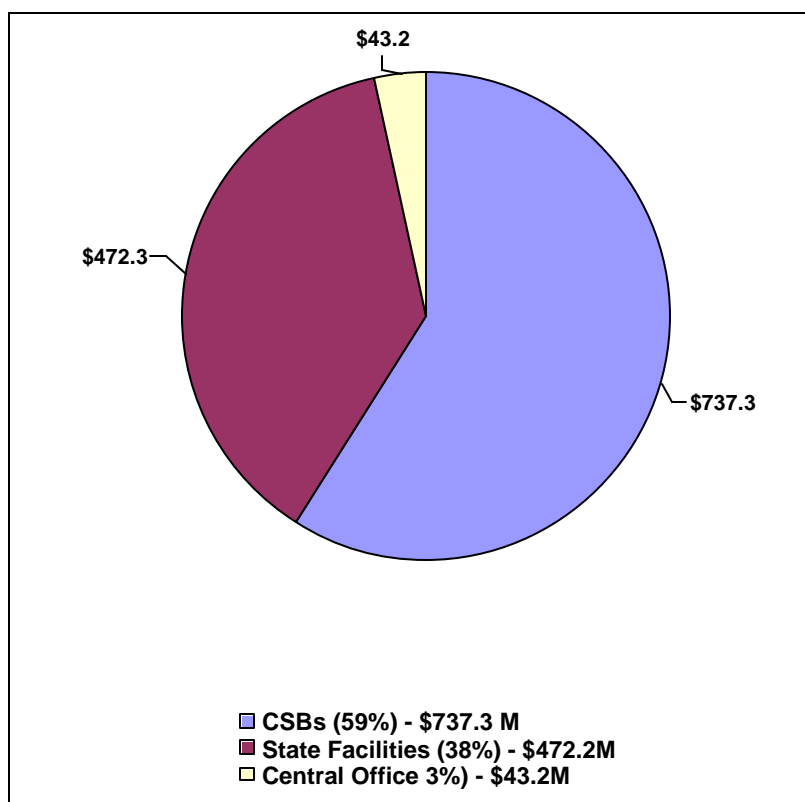


BUDGETARY EXPENDITURES (\$754.5M) vs. GAAP EXPENSES (\$774M): As noted in the Introduction, budgetary expenditures differ from GAAP expenses due to accounting estimates of revenues earned but not yet received and expenses incurred but not yet paid on the GAAP basis versus cash received and paid on the budgetary basis.

The following chart is provided to present a total services systems funding overview for FY 2002 to include the total funding that is available for publicly funded mental health, mental retardation and substance abuse services within the Commonwealth. Total Services Systems Funding is defined as appropriated amounts for the operation of DMHMRSAS Facilities and Central Office and CSBs. CSB funding includes amounts provided by the federal, state, and local governments, and includes Medicaid, Medicare, and other fees.

FY 2002 – TOTAL SERVICES SYSTEMS FUNDING CSBs, Facilities, Central Office

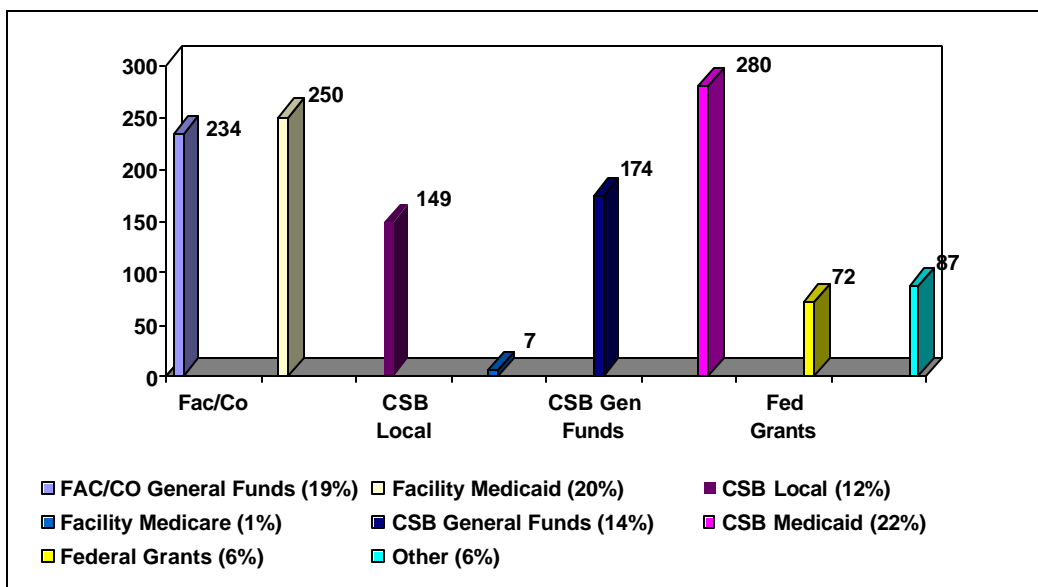
Grand Total \$1.253 Billion



The following chart presents total services systems funding for FY 2002 by funding source for Community Services Boards (CSBs), State Facilities, and the DMHMRSAS Central Office.

**TOTAL SERVICES SYSTEM FUNDING – FY 2002
GENERAL FUND, MEDICAID SOURCES, FEDERAL, LOCAL**

GRAND TOTAL \$1.253 BILLION



Funding Source	\$ Millions	%
Facility/CO Gen. Fund	\$234.3	19
CSB General Fund	174.0	14
Facility Medicaid	250.4	20
CSB Medicaid	279.7	22
CSB Local Govt.	149.3	12
Federal Grants	72.2	6
Facility Medicare	6.9	1
Other (fees/Insurance)	86.0	6
Total	\$1,252.8	100

Source: DMHMRSAS Central Budget Office

COMMUNITY SERVICES BOARDS

Community services boards were established through legislation passed by the General Assembly in 1968 (Chapter 10, Title 37.1 of the Code of Virginia). Local governments were directed to establish and maintain community mental health, mental retardation and substance abuse programs. These programs were to be administered in the most accessible and least restrictive settings. Community services boards serve as providers of services, client advocates, community educators, program developers, and planners on issues related to the provision of services. Listed below are the forty community services boards serving Virginia residents.

Virginia Community Services Boards

Alexandria	Highlands
Alleghany Highlands	Loudoun County
Arlington	Middle Peninsula-Northern Neck
Blue Ridge Behavioral Healthcare	Mount Rogers
Central Virginia	New River Valley
Chesapeake	Norfolk
Chesterfield	Northwestern
Colonial	Piedmont
Crossroads	Planning District1
Cumberland Mountain	Portsmouth Dept. of Behavioral Healthcare Svcs.
Dickenson County	Prince William County
Danville-Pittsylvania	Rappahannock Area
District 19	Rappahannock-Rapidan
Eastern Shore	Region Ten
Fairfax-Falls Church	Richmond Behavioral Health Authority
Goochland-Powhatan	Rockbridge Area
Hampton-Newport News	Southside
Hanover County	Valley
Harrisonburg-Rockingham	Virginia Beach
Henrico Area	Western Tidewater

Twelve community services boards serve a single county or city while twenty-eight serve multiple jurisdictions. Board members are appointed by their locality and represent the interests of those individuals with mental disabilities or substance abuse problems within their locality. More than 8,000 direct and contract agency staff work within the community services board system serving more than 200,000 clients.

CENTRAL OFFICE

The Department's Central Office has oversight responsibility for the programmatic, financial and administrative activities occurring within the state facilities and community services boards. This office promulgates and enforces policy and provides technical assistance to facilities and community services boards. The Department also licenses and regulates public and private programs and facilities. Joy Yeh, CPA, Ph.D., is the Assistant Commissioner for Financial Administration. Miguel A. Casasnovas, CGFM is the Central Office Finance Director.

STATE FACILITIES

The Department operates nine inpatient mental health facilities. These mental health facilities consist of one adolescent facility, two geriatric facilities, and six adult facilities. The Department also operates five training centers for people with mental retardation and one medical center. Overall, the Department has more than 400 buildings with a value in excess of \$225 million. As of June 30, 2002, the Department had 9,090 employees and the facility daily average patient census was 3,342. The daily average patient census for each facility is presented below. Employee and census information are also presented for a period spanning 42 years in the charts that follow.

Virginia's Mental Health Facilities

<u>Facility</u>	<u>Description</u>
Catawba Hospital Director: Jack L. Wood, MBA, VCO Facility Administrator: Yad M. Jabbarpour, MD Finance Director: James F. Campbell, CPA	Located in Catawba, Virginia, this facility provides care to patients and short-term care to adults from nearby communities. The FY 2002 daily average patient census was 90.
Central State Hospital Director: Larry L. Latham, Ph.D. Facility Administrator: David Chu Finance Director: William Hawkins	Located in Petersburg, Virginia, this facility provides inpatient adult psychiatric services as well as forensic and adolescent psychiatric services. The FY 2002 daily average patient census was 297.
Eastern State Hospital Director: John M. Favret Facility Administrator: Martin S. Kline Finance Director: Cliff Love	Located in Williamsburg, Virginia, this hospital provides adult, geriatric, acute and chronic psychiatric, behavioral and dual diagnosis to individuals with mental illness and chemical dependency. The FY 2002 daily average patient census was 500.
Commonwealth Center for Children and Adolescents Director: William J. Tuell, RN, MSN Facility Administrator: Vickie Falls Finance Director: Vickie Falls	Located in Staunton, Virginia, this new facility provides highly specialized intensive diagnostic, evaluation and psychiatric treatment services to children between the ages of four and eighteen. The FY 2002 daily average patient census was 36.
Northern Virginia Mental Health Institute Acting Director: Lynn DeLacy, RN Facility Administrator: Richard Lopez, MBA Finance Director: Anne Baxter	Located in Falls Church, Virginia, this facility provides acute psychiatric care. A 60-bed addition was completed recently. The FY 2002 daily average patient census was 119.
Piedmont Geriatric Hospital Director: Willard R. Pierce, Jr. Fac. Administrator: H. Eugene Overton, CPA Finance Director: Lynne Inge	Located in Burkeville, Virginia, this hospital provides care for geriatric patients. The FY 2002 daily average patient census was 131.
Southern Virginia Mental Health Institute Director: David M. Lyon Facility Administrator: A. Wade Hopkins, CPA Finance Director: A. Wade Hopkins, CPA	Located in Danville, Virginia, this facility provides short-term acute psychiatric care. The FY 2002 daily average patient census was 77.

Virginia's Mental Health Facilities
(Continued)

<u>Facility</u>	<u>Description</u>
Southwestern Virginia Mental Health Institute Acting Director: Cynthia McClure Facility Administrator: Roy G. Layne Finance Director: John Pruett	Located in Marion, Virginia, this facility provides acute and long-term care for adolescents, adults, and geriatrics. The FY 2002 daily average patient census was 149.
Western State Hospital Director: Jack Barber, MD Facility Administrator: David Mawyer Finance Director: Jon Chapman	Located in Staunton, Virginia, this hospital provides inpatient adult and geriatric psychiatric services. The FY 2002 daily average patient census was 254.

Virginia's Facilities for the Mentally Retarded

The Department's training centers provide residential care and training in such areas as language, self-care, independent living, socialization, academic skills and motor development. Each training center is described below.

<u>Facility</u>	<u>Description</u>
Central Virginia Training Center Director: Judy Dudley Facility Administrator: Charles Felmlee Finance Director: Charles Felmlee	Located in Lynchburg, Virginia, this center provides inpatient services to residents who are severely and profoundly retarded. The FY 2002 daily average patient census was 623.
Northern Virginia Training Center Director: Mark Diorio, Ph.D. Facility Administrator: none Finance Director: Sobra Ewald	Located in Fairfax, Virginia, this center serves residents with moderate to profound mental retardation. The FY 2002 daily average patient census was 188.
Southeastern Virginia Training Center Director: Robert D. Shrewsberry, Ph.D. Facility Administrator: Ann Andrews Finance Director: Carol Westphal	Located in Chesapeake, Virginia, this center serves individuals with severe to profound mental retardation. The FY 2002 daily average patient census was 190.
Southwestern Virginia Training Center Director: Dale Woods, Ed.D. Facility Administrator: John W. Jones, Jr. Finance Director: Frances Vaught, CGFM	Located in Hillsville, Virginia, this center serves persons with severe to profound mental retardation and multiple disabilities. The FY 2002 daily average patient census was 214.
Southside Virginia Training Center Director: John A. Holland, M.D. Facility Administrator: William Hawkins Finance Director: Bob Kaufman	Located in Petersburg, Virginia, center serves individuals with severe to profound mental retardation and varying physical disabilities. The FY 2002 daily average patient census was 404. This facility provides administrative and operational support to Central State Hospital and Hiram Davis Medical Center.

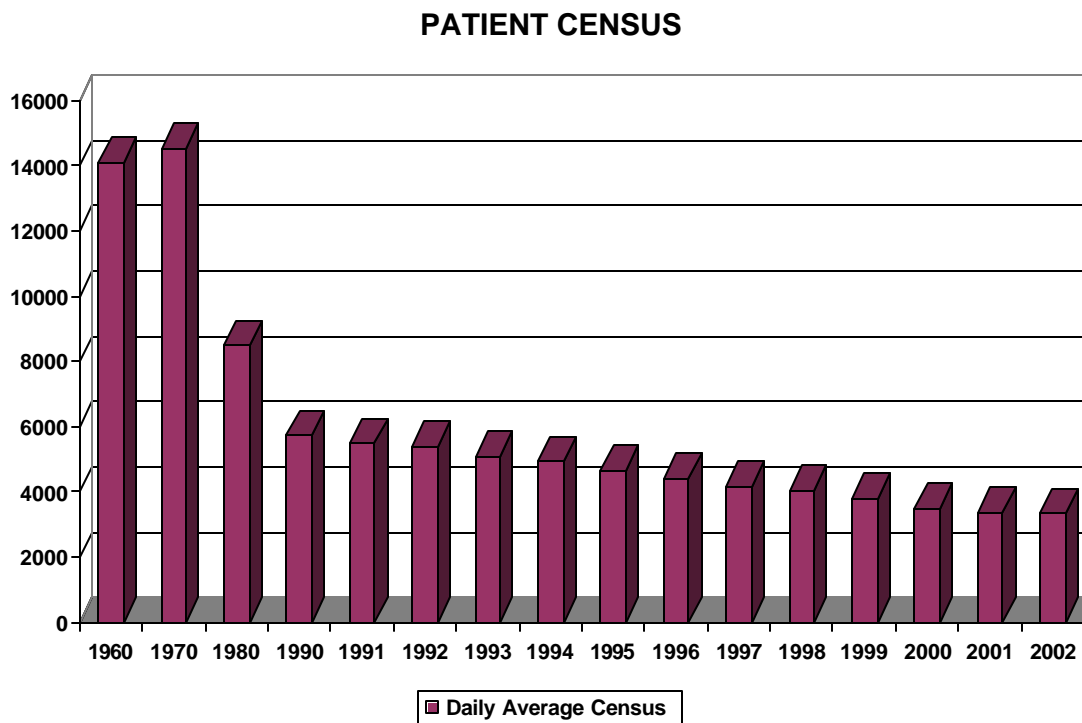
Medical Center

Hiram Davis Medical Center
Director: David A. Rosenquist
Facility Administrator: William Hawkins
Finance Director: Bob Kaufman

Located in Petersburg, Virginia, the Department operates this center, which serves the medical needs of patients and residents of Central State Hospital, and Southside Virginia Training Center, respectively. The medical center also operates an aftercare pharmacy, which provides medications to the patients and residents of the Petersburg Complex and clients of the forty community services boards. The FY 2002 daily average patient census was 70.

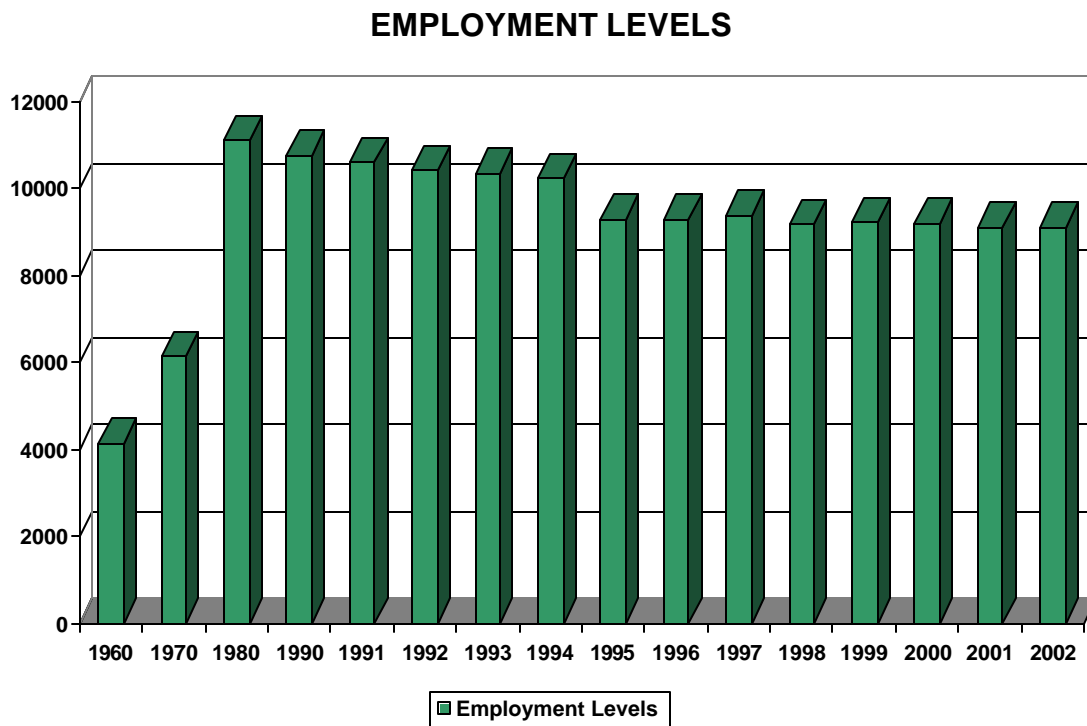
STATE FACILITIES STATISTICS

The following chart presents selected patient census levels over the past 42 years. As can be noted, the Daily Average Census levels have been steadily declining. In 1960, the Daily Average Census was 14,085 and in 2002 the Daily Average Census was 3,342.



Source: “Comparative Analysis-Operating Statistics and Costs” and “Ten Year Expenditure Analyses.”
DMHMRSAS Central Budget Office

The following chart presents selected employment levels over the past 42 years. Employment levels have been declining since 1990. The 1990 level was 10,776 and the 2002 level was 9,090. These employment levels include all DMHMRSAS operations (facilities and central office).



Source: DMHMRSAS Central Budget Office “Comparative Analysis-Operating Statistics and Cost” and “Ten Year Expenditure Analyses.”

Note: Employment levels are employees on payroll at the end of the fiscal year. The average number of employees for FY 2002 was 9,166. Employment levels were low in the 1960's and 1970's due to the operation of fewer facilities by DMHMRSAS. In 1960 and 1970, DMHMRSAS operated 9 facilities. In 1980 there were 17 facilities and in 1990 there were 16 facilities. Currently, DMHMRSAS operates 15 facilities.

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Net Assets
For Fiscal Year Ended June 30, 2002 with
Comparative Figures for 2001**

	2002	2001
Assets		
Current Assets:		
Cash, Cash Equivalents and Investments	\$2,083,424	\$2,440,743
Cash with Treasurer of Virginia	28,991,352	11,168,417
Cash Advances	62,150	62,150
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$14,014,513 for 2002 and \$19,447,155 for 2001) (Note 1 D.)	62,635,707	33,625,873
Cost Settlements Receivable	10,022,751	34,033,948
Other Accounts Receivable	1,309,823	1,463,198
Inventories (Note 1 G.)	2,472,534	3,499,795
Prepaid Assets	454,283	1,502
Total Current Assets	<u>108,032,024</u>	<u>86,295,626</u>
Non-current Assets (Notes 3 & 4)		
Capital Outlay Funds	3,730,504	9,248,520
Patient Resident Funds Held by Trustee	2,371,728	2,345,843
Property, Plant, & Equipment (Net of Accumulated Depreciation)	117,025,786	126,167,594
Total Non-current Assets	<u>123,128,018</u>	<u>137,761,957</u>
Total Assets	<u><u>\$231,160,042</u></u>	<u><u>\$224,057,583</u></u>
Liabilities		
Current Liabilities:		
Accrued Payroll	\$23,267,342	\$23,533,754
Due to the Department of Medical Assistance Services (Note 16)	9,616,266	-
Accounts Payable	8,145,859	7,573,761
Compensated Absences (Note 1 H.)	521,000	1,930,812
Retainage Payable (Note 6)	225,767	518,852
Deferred Revenue (Note 5)	23,097	19,669
Capital Lease Obligations (Note 7)	16,805	19,340
Other Liabilities	100,924	72,066
Total Current Liabilities	<u>41,917,060</u>	<u>33,668,254</u>
Non-current Liabilities		
Compensated Absences (Note 1 H.)	35,207,108	34,835,617
Patient Resident Funds Held by Trustee	2,371,728	2,345,843
Capital Lease Obligations (Note 7)	1,520	17,267
Total Non-current Liabilities	<u>37,580,356</u>	<u>37,198,727</u>
Total Liabilities	<u><u>79,497,416</u></u>	<u><u>70,866,981</u></u>
Net Assets		
Invested in Capital Assets	117,025,786	126,167,594
Retained Earnings	287,471	327,158
Unrestricted	30,738,690	18,499,931
Restricted	3,610,679	8,195,919
Total Net Assets	<u><u>\$151,662,626</u></u>	<u><u>\$153,190,602</u></u>

See accompanying notes to financial statements.

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Revenues, Expenses and Changes in Net Assets
For Fiscal Year Ended June 30, 2002
With Comparative Figures for 2001**

	2002	2001
Operating Revenues		
Net Patient Service Revenue (Note 14)	\$258,342,387	\$273,256,078
Other Operating Revenue	1,659,396	2,208,730
Total Operating Revenue	<u>260,001,783</u>	<u>275,464,808</u>
Expenses		
State Health Services	313,866,461	309,507,069
Administration and Support Services	148,883,561	156,579,432
Secure Confinement	19,491,970	18,981,147
Community Health Services	23,285,830	23,247,523
Depreciation Expense	9,842,695	10,705,544
Instruction	6,724,057	6,376,400
Regulation of Public Facilities	1,159,903	1,100,704
Health Research and Planning	1,418,474	1,522,613
Loss on Disposal of Assets	1,633,933	436,664
Vending Facilities	174,443	142,211
Write-up (Down) of Property and Equipment	-	6,884,009
Other Expenses	12,352	465,435
Total Operating Expenses	<u>526,493,679</u>	<u>535,948,751</u>
Operating Income (Loss)	<u>(266,491,896)</u>	<u>(260,483,943)</u>
Non-operating Income (Loss)		
Appropriations from the Commonwealth (Note 12)	406,675,545	408,440,331
Federal Grant Revenues	72,702,023	59,745,834
Restricted Donations	290,234	219,042
Surplus Property Sales	15,182	37,164
Insurance Recovery Proceeds	20,016	56,566
Interest Income	5,571	13,499
Financial Assistance for Health Services	(238,969,097)	(211,308,773)
Capital Outlay Expenses	(8,104,384)	(13,111,179)
Other Non-operating Expenses	(193,446)	(161,073)
Total Non-operating Income (Loss)	<u>232,441,644</u>	<u>243,931,411</u>
Income (Loss) Before Contributions and Transfers	<u>(34,050,252)</u>	<u>(16,552,532)</u>
Transfers from Department of Medical Assistance Services	37,205,223	-
Capital Appropriations from the Commonwealth	1,450,014	5,781,498
Capital Revenue Bond Proceeds	472,845	1,975,366
Reversions to the Commonwealth	(2,376,234)	(5,325,932)
Net Operating Transfers	<u>(4,229,572)</u>	<u>4,317,589</u>
Change in Net Assets	<u>(1,527,976)</u>	<u>(9,804,011)</u>
Net Assets, Beginning of Year	153,190,602	162,994,613
Net Assets, End of year	<u><u>\$151,662,626</u></u>	<u><u>\$153,190,602</u></u>

See accompanying notes to financial statements.

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Cash Flows
For Fiscal Year Ended June 30, 2002**

Cash Flows from Operating Activities

Receipts from Patient Services	\$263,625,090
Other Operating Receipts	1,050,066
Payments to Employees	(392,113,382)
Payments to Suppliers	(124,877,487)
Transfers to Patient Funds for Canteen Operations	26,357
Transfers to Patient Funds	25,885
Net Cash Provided by Operating Activities	<u>(252,263,471)</u>

Cash Flows from Non-capital Financing Activities

Operating Subsidies-General Fund Appropriations	406,675,545
Federal Grant Subsidies	72,837,401
Transfers from Department of Medical Assistance Services	37,205,223
Payments to Community Programs	(238,969,097)
Reversions to the Commonwealth	(2,376,234)
Net Operating Transfers	(5,724,792)
Restricted Donations	287,684
Restricted Expenditures	(186,330)
Interest Income	5,571
Net Cash Flows form Non-capital Financing Activities	<u>269,754,971</u>

Cash Flows from Capital and Related Financing

Capital Appropriations from the Commonwealth	1,450,014
Revenue Bond Proceeds	472,845
Capital Outlay Expenditures	(8,936,095)
Cash Transfers to Capital Outlay Funds	1,495,220
Net Cash Flows from Capital and Related Financing	<u>(5,518,016)</u>

Net increase (Decrease) in Cash and Cash Equivalents	11,973,484
Balance – Beginning of Year	25,265,673
Balance – End or Year	<u>\$37,239,157</u>

See accompanying notes to financial statements.

**Virginia Department of Mental Health, Mental Retardation
and Substance Abuse Services
Statement of Cash Flows (continued)
For Fiscal Year Ended June 30, 2002**

Reconciliation of Operating Loss to Net Cash**Used by Operations**

Operating Loss	(266,491,896)
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Adjustments to Reconcile Operating Loss to Net Cash	
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Used by Operations:

Depreciation Expense	9,868,772
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Net Changes in Assets and Liabilities:

Accounts Receivable	(4,845,262)
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Inventories	1,027,261
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Prepaid Assets	(452,781)
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Accrued Payroll	(266,412)
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Due Dept of Medical Assistance Services (DMAS)	9,616,266
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Accounts Payable	572,098
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Compensated Absences-Current Portion	(1,409,812)
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Retainage Payable	(293,085)
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Deferred Revenue	3,428
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Capital Lease Liabilities-Current	(2,535)
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Other Current Liabilities	28,858
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Compensated Absences-Long-Term	371,491
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Funds Held in Custody of Others	25,885
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Capital Leases-Long-Term	<u>(15,747)</u>
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Net Cash Used by Operating Activities**(252,263,471)**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements represent the activities of the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services for the fiscal year ended June 30, 2002. The financial statements presented include the fifteen state operated facilities, a Central Office, and funding for forty community services boards (page 18). These State facilities are listed below as follows:

<u>Facility</u>	<u>Location</u>	<u>Facility</u>	<u>Location</u>
Central State Hospital	Petersburg	Catawba Hospital	Catawba
Eastern State Hospital	Williamsburg	Northern VA Training Center	Fairfax
Southwestern VA MH Institute	Marion	Southside VA Training Center	Petersburg
Western State Hospital	Staunton	Northern VA MH Institute	Falls Church
Central VA Training Center	Lynchburg	Piedmont Geriatric Hospital	Burkeville
Commonwealth Center for Children and Adolescents	Staunton	Southern VA MH Institute	Hillsville
Central Office	Richmond	Hiram Davis Medical Center	Petersburg
Southeastern VA Training Center	Chesapeake		

B. Enterprise Fund Accounting

The Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

The enterprise fund method of accounting was adopted by DMHMRSAS in fiscal year 2002. The reason for adopting this methodology was driven by Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements- and Management Discussion and Analysis- for State and Local Governments." According to this statement, enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require DMHMRSAS to maximize efforts to recover the cost of services provided at DMHMRSAS' fifteen mental health and mental retardation facilities. A fee is applicable to every service provided and efforts to collect these fees are required by the Code of Virginia.

In order to provide a comparative financial statement presentation for the fiscal year ended June 30, 2002, the financial statements for the fiscal year ended June 30, 2001 have been restated in accordance with the enterprise fund model of accounting. Prior to the fiscal year ended June 30, 2002, the financial statements of DMHMRSAS were presented in accordance with the Audit Guide for Health Care Organizations published by the American Institute of Certified Public Accountants (AICPA).

C. Net Patient Service Revenue

Patient service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for un-collectible accounts and contractual adjustments are deducted to arrive at net patient service revenue as are charges for charity services.

D. Un-collectible Accounts

The Department records a provision for un-collectible accounts during the period in which collection is considered doubtful.

E. Settlements Due To/From Third-Party Programs and Contractual Adjustments

A significant portion of the Department's services is rendered to patients covered by Medicare, Medicaid, or Trigon. These third-party payers have entered into contractual arrangements with the Department for reimbursement of services provided to patients in specific certified components of the Department's individual facilities. Generally, the Department is reimbursed for patient services by these third-party payers at the lower of cost or charges or at prospectively determined rates in the case of certified components that provide inpatient services. Throughout the year, the third-party payers reimburse the Department at a prearranged tentative payment amount.

In accordance with the third-party payor agreements, the difference between covered charges, whether based upon allowable costs of services or prospectively determined rates, and the Department's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements for reimbursement of patient services covered by third-party programs are determined through cost reports, which are subject to audit and retroactive adjustments by these third parties. The settlements receivable or payable from third-party programs are recorded in the accompanying financial statements.

F. Investments

Investments are valued at cost or fair market value when received if donated.

G. Inventory

Inventory is generally valued at average cost. DMHMRSAS inventory consists of the following: drugs, medical supplies, materials, food supplies, petroleum/fuel oil, housekeeping and laundry supplies, personal care items and clothing, and office supplies. Adjustments have been made in order to report inventory amounts in accordance with the consumption method.

H. Compensated Absences

Compensated absences reflected in the accompanying financial statements represent the amounts of vacation, sick and compensatory leave earned by employees of the Department, but not taken at June 30, 2002. The amount reflects all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave policies.

2. CASH AND INVESTMENTS

The following information is disclosed regarding cash and investments maintained by the Department.

A. Cash with the Treasurer of Virginia

All State funds of the Department are maintained by the Treasurer of Virginia pursuant to Section 2.1-77, et seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody and investment of State funds. Each fund's equity in pooled State funds is reported as "Cash with the Treasurer of Virginia" on the balance sheet and is not categorized as to credit risk.

B. Investments

Certain deposits and investments are held by the Department or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia. Such deposits and investments are reported separately from cash with the Treasurer as investments. Short-term investments represent investments, which mature within one year or less. Investments with maturity in excess of one year are considered long term investments.

Statutes authorize the investment of funds held by the Department in obligations of the Commonwealth, Federal government, other States or political subdivisions thereof, Virginia political subdivisions and the International Bank of Reconstruction and Development and the Asian Development Bank. In addition, the Department may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the Department.

The Department's investments, including short-term investments, are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2002. Credit risk is the risk that the Department may not be able to obtain possession of its investment instrument or investments which are insured or registered or for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Department's name. The market value of the Department's investments at June 30, 2002 was equal to the carrying value of such investments.

The Department's investments are categorized below by credit risk. The three types of credit risk are:

- | | |
|-------------|---|
| Category 1: | Insured or registered securities or securities held by the Department or its agent in the Department's name. |
| Category 2: | Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the Department's name. |
| Category 3: | Uninsured and unregistered, with securities held by the counterparts, or by its trust department or agent but not in the Department's name. |

**Schedule of Cash Equivalents
and Investments
As of June 30, 2002**

	Category			Carrying Amount
	1	2	3	
U.S. Treasury and Agency Securities	\$25,500	-	-	\$25,500
Corporate Notes	1,212	-	-	1,212
	<u>\$26,712</u>	<u>-</u>	<u>-</u>	<u>26,712</u>
Investments not Subject to Categorization:				
Money Market Funds				58,207
Non-negotiable CDs				98,978
State & Local Govt. Investment Pool (LGIP)				<u>2,539,399</u>
Total Cash Equivalents and Investments				<u>\$2,723,296</u>

Cash not with the Treasurer of Virginia amounts to \$1,731,839 and the bank balance is \$1,426,030. The entire bank balance is either collateralized in accordance with the Code of Virginia (Section 2.1-359) or is insured by the Federal Deposit Insurance Corporation (FDIC).

3. NON-CURRENT ASSETS

Non-current Assets are for two primary purposes. The first purpose is for capital maintenance and construction. These funds are held with the Treasurer of Virginia. The second purpose is for discretionary use by DMHMRSAS patient/residents. These funds are held in trust in local bank accounts throughout the State.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or estimated historical cost. The Department capitalizes expenditures for equipment if the equipment is separate, has a multi-year life and has a value or unit acquisition cost in excess of \$1,500 at the date of acquisition (for State Hospitals and Training Centers). The capitalization dollar limit at the Department's Central Office is \$5,000.

Depreciation on property, plant and equipment is computed over the estimated useful lives of the assets based upon the straight-line method of depreciation. The general range of estimated useful lives is fifteen to forty years for buildings and fixtures and three to fifteen years for equipment. A summary of changes in fixed assets is presented below:

	Balance at July 1, 2001	Additions	Deletions	Balance at June 30, 2002
Land	\$14,898,854	\$ -	\$ -	\$14,898,854
Infrastructure	12,296,471	129,564	-	12,426,035
Equipment	49,787,305	2,145,216	1,842,919	50,089,602
Building	230,008,087	2,491,747	212,771	232,287,063
Construction in Progress	14,055,834	-	2,431,706	11,624,128
PP & E Write-down	(6,884,009)	6,884,009	-	-
Accumulated Depr.	(187,994,948)	(15,883,190)	421,757	(204,299,895)
Total	\$126,167,594	\$(4,232,654)	\$4,909,153	\$117,025,787

5. DEFERRED REVENUE

Deferred Revenue represents dollars received at June 30, 2002 but not yet earned. This amount is reported in the restricted net asset balance. It is composed of federal grant money received but not yet spent.

6. RETAINAGES PAYABLE

At June 30, 2002, \$225,767 was held by DMHMRSAS as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the various contracts.

7. CAPITAL LEASE OBLIGATIONS

The Department of Mental Health, Mental Retardation and Substance Abuse Services is the lessee of capital equipment under capital leases expiring in various years through 2004. The assets under capital leases are recorded as fixed assets at the lower of the net present value of the minimum lease payments during the lease term or the fair market value of the asset. For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 2002 are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$26,709
2004	3,274
2005-2007	-
Later Years	-
Total Minimum Lease Payments	29,983
Less: Executory Costs	(9,904)
Net Minimum Lease Payments	20,079
Less: Interest	(1,754)
Present Value Minimum Lease Payments	\$18,325
Current Portion	\$16,805
Long-term Portion	1,520
Total	\$18,325

Interest rates on capitalized leases vary from 6% to 78.41% and are based upon negotiations between each Facility Administrator and the lessor. Due to budgetary constraints, it is sometimes advantageous or necessary for some administrators to secure leases (albeit high interest) as opposed to making capital outlays because lump sum funding is not always available.

8. CONTRIBUTIONS TO PENSION PLAN

The Department contributes to a defined benefit plan administered by the Virginia Retirement System. The Virginia Retirement System also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

9. OPERATING LEASES

The Department is also committed under various operating leases for equipment. In general, these leases are short term in nature. As of June 30, 2002, the Department has the following total future minimum rental payments due:

<u>Year</u>	<u>Amount</u>
2003	\$222,526
2004	94,158
2005	30,654
2006	10,242
2007	1,944
Later Years	-
Total Minimum Lease Payments	359,524
Less: Executory Costs	75,906
Net Minimum Rental Payments	<u>\$283,618</u>

10. SURETY BOND

Employees of the Department are covered by a Faithful Performance Duty Bond administered by the Division of Risk Management, Commonwealth of Virginia, with liability limits of \$500,000 for each occurrence. Information relating to this policy is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

11. CONTINGENCIES

Medicare cost reports submitted to the Medicare program together with the related statistics which support cost allocations to the program for the fiscal year ended June 30, 2002 have not been reviewed by the fiscal intermediary. Acceptance and review of these cost reports could result in adjustments to settlements and a liability of the Department to the Medicare program. The effects of these reviews cannot be determined at this time. Medicaid cost reports submitted for final settlement for the fiscal year ended June 30, 2002 have not been reviewed by the intermediary. Acceptance and review of these cost reports could result in adjustments to the settlements and a liability of the Department to the Medicaid program. It is the opinion that adjustments, if any, resulting from this review will not be material.

The Department is involved in several lawsuits arising in the ordinary course of operations. It is the Department's opinion that any losses incurred as a result of known claims existing as of June 30, 2002 will not be material.

12. APPROPRIATIONS FROM THE COMMONWEALTH

The Appropriations Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Department's facilities or Central Office for expenditure.

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

FY 2002, Original Appropriation, as of July 1, 2001	\$432,290,936
General Fund Regrades	11,486,799
Employer Health Insurance Premium Increases	3,295,972
Amended Appropriation –2002 General Assembly	2,100,000
Deferred Compensation Match	628,156
Transfers to Other State Agencies	(1,725,950)
House Bill 29 Reductions	(2,909,953)
Central Office Reductions-State Shortfall	(5,810,018)
Transfer to DPB-State Shortfall	(6,342,308)
Productivity and Other Savings	(6,593,119)
VRS Rate Reduction	(7,660,115)
Transfers to Dept. of Medical Assistance Services	(12,084,855)
Final (Adjusted) Appropriations, June 30, 2002	<u>\$406,675,545</u>

13. COLLECTIONS FOR THE GENERAL FUND OF THE COMMONWEALTH

The Department's facilities collect revenues for the General Fund of the Commonwealth. These collections are included under non-operating income in the Statement of Revenues, Expenses, and Changes in Net Assets. These funds are deposited by each facility directly with the Treasurer of Virginia for credit to the Commonwealth's General Fund and are not available to meet current operating needs. The categories of collection are as follows:

Hospital Food Services	\$ 12,191
Hospital Sales	1,725
Rental of Quarters	14,782
Miscellaneous Revenue	5,389
Prior Year Expenditure Refunds	39,862
Total	<u>\$73,949</u>

14. NET PATIENT SERVICE REVENUE (FEES)

The Department's mental health and mental retardation facilities provide a significant amount of services which are deemed charitable and are subsidized by state General Fund appropriations. Of the total charges of \$501,853,123 for fiscal year 2002, \$222,971,828 was deemed to be charitable services. Charitable write-offs occur when no third party resources are available and investigation of client resources indicate the client is unable to pay full rate charges or reduced charges determined in accordance with a sliding fee scale. This amount has been deducted from gross patient service revenue. The following chart presents the detail calculations of net patient service revenue (Fees) for FY 2002 and FY 2001, respectively. It is useful to note that approximately 91% of DMHMRSAS revenue consists of Medicaid reimbursements.

**Net Patient Service Revenue (FEES)
FY 2002 and FY 2001**

Description	FY 2002	FY 2001	Change
Gross Patient/Resident Charges	\$501,853,123	\$485,914,483	\$15,938,640
Less: Charity Allowance	(222,971,828)	(214,080,627)	(8,891,201)
Plus: Third Party Cost Settlements Receivable	10,022,751	34,033,948	(24,011,197)
Less: Contractual Adjustments	(30,561,659)	(32,611,726)	2,050,067
Net Patient Service Revenue	<u>\$258,342,387</u>	<u>\$273,256,078</u>	<u>(\$14,913,691)</u>

15. EXPENSE PROGRAM DESCRIPTIONS

The Department reports expenses under various state programs. These programs are briefly described below.

State Health Services (430):

Efforts to provide direct health care services to individuals and families through state-operated facilities.

Administration and Support Services (449):

Efforts to provide overall administrative and logistical support services. This includes general management, computer services, food services, housekeeping, laundry, physical and power plant, and training.

Financial Assistance for Health Services (445):

Efforts to provide financial aid to localities for the provision of local health services. This includes CSB funding for mental health, mental retardation, substance abuse, and administrative services.

Secure Confinement (357):

Efforts to hold patients in secure confinement until such time as they can be returned to the community. This includes the forensic unit at Central State Hospital.

Instruction (197):

Efforts to provide academic elementary and secondary education. This includes basic skills and knowledge instruction as well as occupational-vocational instruction.

Community Health Services (440):

Efforts to provide health care services to individuals and families through community-based services.

Regulation of Public Facilities (561):

Efforts to inspect, certify, and regulate public facilities and services, both publicly and privately operated.

Health, Research, and Planning (406):

Efforts to promote the public health through research planning, and coordination of services and activities.

Vending Facilities (806):

Efforts to provide food services.

16. MEDICAID TRANSFER ACTIVITY

During the month of April 2002, the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) anticipated receipt of \$46.8 million in Medicaid cost settlements and retroactive Medicaid rate adjustments from the Department of Medical Assistance Services (DMAS). As a result of this, DMHMRSAS chose not to bill DMAS for Medicaid claims attributable to the months of April and May until late June 2002. In so doing, cash reimbursements for April, May and June claims would be received in July 2002. This was anticipated to have been an attractive decision because it would create maximum cash flow at a time when three pay periods were to be processed. Furthermore, at the close of August 2002 bonus payments to employees were to be made in accordance with the bonus plan approved by the Governor and General Assembly during the last legislative session. The anticipated additional cash flow created by the submission of the April, May and June Medicaid claims would have been sufficient to cover much of this cost as well.

In mid May 2002, DMAS informed DMHMRSAS that it would not process Medicaid settlements and retroactive rate adjustments in fiscal year 2002. Instead, DMAS instructed DMHMRSAS to submit the April and May claims at the usual time and advised that these would be reimbursed in fiscal year 2002. These claims totaled \$37.2 million, an amount short of the \$46.8 million needed to complete the fiscal year. DMAS agreed to advance DMHMRSAS the remaining \$9.6 million in fiscal year 2002. The advance was required to be repaid to DMAS in fiscal year 2003. This repayment process would come about by denying the appropriate dollar amount of claims submissions from DMHMRSAS during fiscal year 2003. The table below indicates the dollar amount of claims to be denied at each DMHMRSAS facility.

Central State Hospital	\$95,632
Eastern State Hospital	768,794
SW Virginia MH Institute	122,991
Western State Hospital	25,816
Central Virginia Training Center	2,534,007
Southeastern Virginia Training Center	636,094
Catawba Hospital	335,083
Northern Virginia Training Center	1,121,343
Southside Virginia Training Center	2,220,042
Piedmont Geriatric Hospital	919,511
Southwestern Virginia Training Center	618,516
Hiram Davis Medical Center	<u>218,437</u>
Total Due to DMAS	<u>\$9,616,266</u>

During the final week of fiscal year 2002, DMAS informed DMHMRSAS that it would not process the \$37.2 million of submitted Medicaid claims attributable to April and May activity until July 2, 2002 (fiscal year 2003). For this reason, the cash received from DMAS in fiscal year 2002 is reported as a cash transfer on the financial statements of DMHMRSAS. Because \$9.6 million of this amount was due to DMAS as of June 30, 2002, and accrued as a cash transfer to DMAS, the net cash transfer from DMAS is reported on the financial statements as \$37.2 million (\$46.8 million transferred from DMAS and \$9.6 million accrued as a transfer indicating the amount payable to DMAS in fiscal year 2003).

DMHMRSAS received the Federal portion of its submitted Medicaid cost settlements and retroactive rate adjustments in late fiscal year 2002. This amounted to \$24.7 million. The Commonwealth of Virginia retained the remaining state general fund portion of the settlements and rate adjustments in the amount of \$22.1 million.

Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2002

Federal Sponsor/Program	CFDA#	Balance 7/1/01	Receipts	Disb.	Balance 6/30/02
<u>MONETARY ASSISTANCE</u>					
<u>U.S. DEPT OF AGRICULTURE:</u>					
Pass Through Payments (VA Dept of Education):					
National School Breakfast Program	10.553	\$30,205	\$22,316	\$26,818	\$25,703
National School Lunch Program	10.555	34,602	43,160	48,598	29,164
<u>U.S. DEPT. OF HEALTH & HUMAN SERVICES:</u>					
Direct Payments:					
Crisis Counseling	83.539	-	1,682	1,682	-
Public Health & Social Services Emergency Fund	93.003	-	1,232,243	1,232,243	-
Technical Asst. for CMHS Block Grant Activity	93.119	-	164,949	164,949	-
Project for Asst. in Transition from Homelessness	93.150	-	690,040	690,040	-
Consolidated Knowledge Development & Application	93.230	-	1,697,662	1,697,662	-
Comparing Ways of Collecting SA Outcome Data	93.238	-	60,627	60,627	-
CMHS Block Grant	93.958	-	8,990,122	8,990,122	-
SA Prevention & Treatment Block Grant	93.959	-	43,748,090	43,748,090	-
MH Disaster Assistance & Emergency MH	93.982	-	2,251,775	2,251,775	-
U.S. DEPT. OF EDUCATION: Grants for Infants & Families	84.181	1	8,997,104	8,997,105	-
U.S. DEPT. OF HEALTH: Internet Access Grant	93.879	16,697	-	-	16,697
<u>U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT:</u>					
Shelter Care Plus	14.238	-	202,380	202,380	-
Board for People with Disabilities	93.630	-			-
<u>PASS THROUGH GRANTS:</u>					
VA. Dept. of Education: Adult Education	84.002	2,510	-	-	2,510
VA Dept. of Education: Education for Handicapped Children	84.009	3,309	-	-	3,309
VA Dept. of Health: AIDS Activity	93.940	-	125,953	125,953	-
VA Dept. of Criminal Justice: Res. Alcohol & Drug Treatment	16.593	-	32,493	32,493	-
VA Dept. of Criminal Justice: Drug Ctl. & Sys. Improvement	16.579	20	-	-	20
VA Dept. of Emergency Services: 99 Disaster Awareness	83.539	-	1,350,324	1,350,324	-
Board for People with Disabilities: Developmental Disability	93.630	-	90,416	90,416	-
VA Dept. of Social Services: Child Care & Development	93.575	-	1,290,652	1,290,652	-
VA Dept. of Social Services: TANF/LINK	17.253	-	361,892	361,892	-
VA Dept. of Med. Asst. Services: Medical Assistance Program	93.778	(419)	963,596	963,596	(419)
Non-categorical Grants		20,411	392,346	353,021	59,736
Total Monetary Assistance		\$107,336	72,709,822	72,680,438	136,720
<u>NONMONETARY ASSISTANCE</u>					
<u>U.S. DEPT OF AGRICULTURE</u>					
Pass Through Payments: VADACS Food Distribution Program	10.550	19,669	36,132	29,955	25,846
Total Federal Assistance		\$127,005	\$72,745,954	\$72,710,393	\$162,566

Note: This Schedule is presented on the cash basis of accounting.

**CHRONOLOGICAL HISTORY OF THE VIRGINIA
DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND
SUBSTANCE ABUSE SERVICES**

- 1773 Public Hospital for Persons of Insane and Disordered Minds (currently known as Eastern State Hospital) is established in Williamsburg. This facility is the first in the new world designed exclusively for treatment of people with mental disabilities.
- 1825 Western State Hospital is established in Staunton.
- 1841 Public Hospital for Persons of Insane and Disordered Minds changes its name to Eastern Lunatic Asylum.
- 1869 Central State Hospital is established in Howards Grove.
- 1885 Central State Hospital is moved to Petersburg.
- 1886 Southwestern State Hospital (currently known as Southwestern Virginia Mental Health Institute) is established in Marion.
- 1894 Eastern Lunatic Asylum changes its name to Eastern State Hospital.
- 1909 Catawba Hospital is established near Salem.
- 1910 The Virginia State Colony for the Epileptic and Feeble-minded (currently known as Central Virginia Training Center) is established in Lynchburg to serve people with mental retardation.
- 1911 Individual boards are created to govern each state hospital and the state colony in Lynchburg.
- 1918 Piedmont Hospital (currently Piedmont Geriatric Hospital) is established near Burkeville.
- 1929 DeJarnette Center is established in Staunton.
- 1936 The first state hospital board (currently known as the State Mental Health, Mental Retardation and Substance Abuse Services Board) is established.
- 1939 Petersburg Colony (currently known as Southside Virginia Training Center) is established to serve people with mental retardation.
- 1940 The Virginia State Colony for the Epileptic and Feeble-minded changes its name to the Lynchburg State Colony.
- 1942 The Department of Mental Hygiene and Hospitals is established in Richmond (currently known as the Department of Mental Health, Mental Retardation and Substance Abuse Services). Hugh C. Henry, MD is appointed the first Commissioner. Daily average patient census is 14,189.
- 1946 Joseph E. Barrett, MD is appointed second Commissioner. Daily average patient census is 13,656.
- 1954 The Lynchburg State Colony changes its name to the Lynchburg Training School and Hospital.
- 1957 Hiram W. Davis, MD is appointed as third Commissioner. Daily average patient census is 13,706.
- 1968 The General Assembly passes legislation (Chapter 10 of Title 37.1) allowing the establishment of community services boards. Northern Virginia Mental Health Institute is established in Falls Church.
- 1969 William Allerton, MD is appointed as fourth Commissioner. Daily average patient census is 14,501.

- 1971 The name of the Petersburg Colony is changed to the Petersburg Training School and Hospital.
- 1973 Northern Virginia Training Center and Southwestern Virginia Training Center are established in Fairfax and Hillsville, respectively. The Department of Mental Hygiene and Hospitals changes its name to the Department of Mental Health and Mental Retardation.
- 1974 The name of the Petersburg Training School and Hospital is changed to Southside Virginia Training Center.
- 1975 Southeastern Virginia Training Center is established in Chesapeake.
- 1976 By act of the General Assembly, the Division of Drug Abuse Control is merged with the Bureau of Drug Rehabilitation in the Department of Mental Health and Mental Retardation to form the Division of Substance Abuse. Leo Kirven, MD is appointed as fifth Commissioner. Daily average patient census is 10,227.
- 1977 Southern Virginia Mental Health Institute is established in Danville.
- 1979 Hiram Davis Medical Center is established in Petersburg.
- 1980 The General Assembly amends Chapter 10 to require all cities and counties to join or establish a community services board by July 1, 1983.
- 1981 Joseph Bevilacqua, Ph.D. is appointed as sixth Commissioner. Daily average patient census is 8,024.
- 1983 Statewide coverage of community services boards is achieved.
- 1985 The Lynchburg Training School and Hospital changes its name to Central Virginia Training Center.
- 1986 Howard M. Cullum is appointed as seventh Commissioner. Daily average patient census is 6,154.
- 1987 The Department of Mental Health and Mental Retardation becomes the Department of Mental Health, Mental Retardation and Substance Abuse Services.
- 1988 The General Assembly enacts a \$68 million community services initiative, the single largest infusion of state funding for community services. The Southside MHMR Support Unit is merged with Southside Virginia Training Center.
- 1990 King E. Davis, Ph.D. is appointed as eighth Commissioner. The geriatric unit at Western State Hospital and the adolescent unit at Eastern State Hospital are closed and patients transferred. Daily average patient census is 5,714.
- 1991 The Department implements Medicaid State Plan Option and mental retardation waiver with community services boards. The Virginia Treatment Center for Children is transferred to the Medical College of Virginia to more adequately serve the hospital's research needs.

- 1994 Timothy A. Kelly, Ph.D. is appointed as ninth Commissioner. Daily average patient census is 4,924.
- 1997 Richard E. Kellogg is appointed acting Commissioner. Daily average patient census is 4,176.
- 1998 Richard E. Kellogg is appointed as tenth Commissioner. The Hall-Gartlan Commission completes its work and makes significant recommendations for change in the system of publicly funded mental health, mental retardation, and substance abuse services. This leads to a major rewrite of portions of the Code of Virginia dealing with community mental health, mental retardation, and substance abuse services. Daily average patient census is 4,048.
- 1999 Admissions to state hospitals continue to decline as medications used in community settings become more effective. Total admissions to state hospitals in FY 1999 declined by 1,193 or 19% to 6,316. Daily average patient census is 3,799.
- 2000 Admissions to state hospitals continue to decline. Total admissions to state hospitals in FY 2000 declined by 1,146 or 18.1% to 5,170. The daily average patient census is 3,505.
- 2001 Admissions to state hospitals increased moderately. Total admissions to state hospitals in FY 2001 increased by 154 or 3% to 5,324. The daily average patient census is 3,191. Dejarnette Center changes its name to Commonwealth Center for Children and Adolescents.
- 2002 James S. Reinhard, MD is appointed as eleventh Commissioner. Total admissions to state hospitals in FY 2002 increased by 734 or 13% to 6,058. The daily average patient census is 3,342. Due to severe state budget and economic conditions, the Department is tasked by the Governor with reducing expenses by \$33.4 million in fiscal year 2003 and \$37.3 million in fiscal year 2004. These reductions apply to the Department's facilities, Central Office, and Community Program (CSB) funding.

ACKNOWLEDGEMENTS

This annual report was prepared under the direction of Joy Yeh, CPA, Ph.D., Assistant Commissioner, Financial Administration and Kenneth M. Gunn, Jr., CGFM, CPA, Director, Office of Financial Reporting and Compliance. Annual financial statement preparation is very much a team effort and could not have been possible without the diligent efforts of facility financial management staff and those offices in the Division of Financial Administration at the Central Office.

The team involved in preparing this report includes: Nauri D. Ahmed, CGFM, CPA; Gerald M. Spivey, CGFM, CFE; and Garland A. Adkins, Jr., CFE, CPA. These individuals are Financial Management Analysts within the Office of Financial Reporting and Compliance. Brenda Mantlo, Executive Secretary to Dr. Yeh, was also instrumental in the production of this report.

The Auditor of Public Accounts (APA) has audited previous years' financial statements and operations of the Department. These audits have been favorable for such a large State agency. The Department has been committed to cooperating as best it can, within its resources, to comply and implement all APA recommendations. Copies for prior years' audit reports may be obtained by writing or contacting the APA. The address is:

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